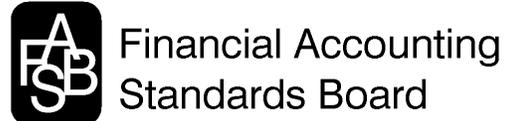


MINUTES



To: Board Members
From: Project Team (Beckendorff x 229)
Subject: Minutes of the August 29, 2007
Conceptual Framework Board Meeting **Date:** August 30, 2007
cc: Leisenring, Bielstein, Golden, MacDonald, Allen, Polley, Glotzer,
Klimek, Lott, Gabriele, Sutay, Project Team, FASB Intranet, Upton,
Hickey, Crook, Lian, Hague, Villmann, Willis, GASB: Reese, Patton

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement or Interpretation.

Topic: Phase A: Objectives and Qualitative Characteristics

Basis for Discussion: Memorandum No. 63

Length of Discussion: 9:00 a.m. to 9:30 a.m.

Attendance:

Board members present: Herz, Batavick, Crooch, Linsmeier, Seidman, Smith, and Young

IASB members present: Leisenring

Staff in charge of topic: J. Johnson

Other staff at Board table: L.T. Johnson, Bossio, Bielstein, Lian, Beckendorff, and Chesney

Summary of Decisions Reached:

At the August 29, 2007 meeting, the Board redeliberated issues related to the Discussion Paper (DP), *Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information*. Specifically, the Board addressed (1) concerns raised by respondents regarding the role of stewardship in the objective of financial reporting and (2) the logical flow of Chapter 1 of the DP. The Board decided the following:

1. The objective of general purpose external financial reporting is to provide financial information about the reporting entity that is useful to present and potential investors and creditors in making decisions in their capacity as capital providers.
2. Chapter 1 of the DP should be structured as follows so that it flows logically from the premise that the basic perspective of financial reporting is that of the entity.
 - a. The basic perspective underlying financial reporting is the perspective of the entity that is reporting.
 - b. That entity perspective involves reporting on the entity's resources (assets), the claims on the entity's resources (liabilities and equity), and the changes in them.
 - c. The primary user group is made up of those who have a claim (or potentially may have a claim) on the entity's resources—its present and potential equity investors and creditors (capital providers). The objective of financial reporting is focused on meeting the information needs of the primary user group.
 - d. That primary user group is interested in financial information because that information is useful in making decisions that investors and creditors make in their capacity as capital providers.
 - e. The decisions made by investors and creditors include resource allocation decisions as well as decisions relating to protecting or enhancing their claim on the resources of an entity.
 - f. Investors and creditors use information about an entity's resources, claims to those resources, and changes in resources and claims as inputs into the decision-making process.

- g. Other potential users groups may benefit from financial reporting information, but they are not the focus of the objective.

Objective of Meeting:

The objective of the meeting was to reach decisions on the staff's recommendations regarding (1) concerns raised by respondents regarding the role of stewardship in the objective of financial reporting and (2) the logical flow of Chapter 1 of the DP. The objective of the meeting was met.

Matters Discussed and Decisions Reached:

Issue 1: The Objective of Financial Reporting

1. Jeff Johnson stated that the first issue concerned the objective of financial reporting as stated in paragraph OB2 of Chapter 1 in the Preliminary Views (PV) document. He stated that many respondents questioned whether the objective, as drafted in that document, adequately encompasses all of the legitimate uses of financial reporting by the primary user group. Mr. Johnson stated that the staff received approximately 30 comment letters that specifically referred to the absence of stewardship as part of that objective. He stated that some of those comment letters substantially addressed the stewardship issue while others just made a passing reference to it. He noted that among the respondents, there was no clear consensus as to what stewardship means, whether including it in the objective would affect financial reporting, or what items it would specifically effect if it did impact financial reporting. However, Mr. Johnson stated, there was clearly some substance to these comments, so the staff further investigated the issue.
2. Mr. Johnson stated that the staff discussed the stewardship issue with various advisory groups and with several of those respondents who substantively commented on the issue. He stated that the staff's further investigation confirmed that decision usefulness as an objective is appropriate. That is, if one doesn't have any power to act, he does not need financial information. However, the shortcoming of the objective as drafted in the PV was that it limits decision usefulness to making resource allocation decisions. Mr.

Johnson stated that respondents consistently felt that this objective was too narrow. Respondents pointed out that the primary user group does make resource allocation decisions, but they also make decisions in efforts to protect and enhance their investments. Those respondents, and the staff, believe that those types of decisions (involving protecting and enhancing one's investment) cannot be characterized as resource allocation decisions. Thus, the staff proposes the following revised objective:

The objective of general purpose external financial reporting is to provide financial information about the reporting entity that is useful to present and potential investors and creditors in making decisions in their capacity as capital providers.

3. Mr. Johnson stated that the staff supports the revised objective because it is still focused on decision usefulness, is not limited to resource allocation decisions, and places an emphasis on capital providers. He stated that the staff's fieldwork showed that this revised objective satisfied the needs of most respondents who commented on stewardship. Mr. Johnson asked whether, in principle, the Board agreed with the revised objective.
4. Mr. Crooch asked whether the staff had identified any changes in financial reporting that would result from broadening the objective. Mr. Johnson stated that it was impossible to identify any specific changes at this point and it was possible that the revised objective would not result in different financial information. However, Mr. Johnson stated that the revised objective would broaden the focus of financial reporting and could affect the emphasis placed on some financial information.
5. Mr. Linsmeier stated that he believed Chapter 1 was the foundation to the conceptual framework and that broadening the objective should carry through to the rest of the framework. He stated that the change would be productive because it may cause to Board to think differently when making standards-setting decisions.
6. Mr. Leisenring stated that he believed the objective in the PV was too narrow and that broadening the objective was an appropriate, substantive change. Mr. Batavick agreed. He stated that he felt the revised wording captured the broader objective well and did a good job encompassing all capital providers.

7. The Board unanimously supported, in principle, the revised objective of financial reporting.

Issue 2: The Logical Flow of Chapter 1 of the DP

8. Mr. Johnson stated that, during redeliberations, the Board affirmed that the basic underlying perspective of financial reporting is the perspective of the entity. Basically, an entity has substance of its own and financial reporting involves the entity reporting on its resources, the claims to those resources, and changes in those resources and claims. That perspective supports a primary user group that includes all claimants (all capital providers) without prioritizing one group over another.
9. Mr. Johnson stated that the staff recommends reorganizing Chapter 1 so that it flows logically from that fundamental building block (the entity perspective) as follows:
 - a. The basic perspective underlying financial reporting is the perspective of the entity that is reporting.
 - b. That perspective involves reporting on the entity's resources (assets), the claims on the entity's resources (liabilities and equity), and the changes in them.
 - c. The primary user group is made up of those who have a claim (or potentially may have a claim) on the entity's resources—its present and potential equity investors and creditors (capital providers).
 - d. That primary user group is interested in financial information because that information is useful in making decisions that investors and creditors make in their capacity as capital providers.
 - e. The decisions made by investors and creditors include resource allocation decisions as well as decisions relating to protecting or enhancing their claim on the resources of an entity.
 - f. Other potential users groups may benefit from financial reporting information, but they are not the focus of the objective.
10. Mr. Johnson noted that the staff had provided the Board with a potential draft of Chapter 1, without a basis for conclusions, to demonstrate the effect of the

proposed organizational structure. He asked if the Board agreed, in principle, with the restructuring of Chapter 1.

11. Mr. Linsmeier stated that he agreed in principle with the reorganization. However, he pointed out that the proposed reorganization as expressed in the memo did not encompass all of Chapter 1 of the PV. He noted that, specifically, the discussion related to the cash, accrual, and fair value models is left out of the memo.
12. Ms. Seidman noted that, because the revised organization flows from the entity perspective, it will be important to make sure the work being done in Chapter 1 is consistent and complementary to the work being done regarding the reporting entity (in Phase D). Mr. Young stated that he would consider eliminating any references to the reporting entity in Chapter 1 until the reporting entity is better defined in Phase D (especially because he did not agree with the current discussions in that phase). Mr. Johnson stated that the staff would remain aware of the work being done in the reporting entity phase. However, he stated that it was important that the objective of financial reporting dictate what a reporting entity can and cannot be (rather than the other way around).
13. The Board supported, in principle, the reorganization of Chapter 1.

Miscellaneous

14. Mr. Linsmeier stated that he felt the Board should publicly mention two issues that were discussed in the prior week's education session. First, he stated that constituents should be aware that the Board has directed the staff to carefully consider the primary capital providers and how to distinguish between them (equity investors versus lenders versus other creditors). Second, he stated that constituents should also be aware that the Board has directed the staff to consider whether the ability to demand financial information should be included as a criterion to identify primary users.

Follow-up Items:

None

General Announcements:

None